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"MINIBONDS": NEW PERSPECTIVES FOR FINANCING THE SMES (SMALL AND MEDIUM ENTERPRISES)

For various reasons, relating to the typical Italian SMEs nature and to the market structure, the financial requirements of Italian SMEs have traditionally been satisfied by bank financing. Law decree No. 83 of 2012 ("Development Decree") marks an attempt to provide an alternative source of financing for SMEs, through recourse to the debt capital market. The Decree has expanded the opportunities to resort to capital market for Italian privately held companies, taking away restrictions set forth by corporate law (such as the prohibition to issue corporate bonds for a value exceeding twice the value of the net equity, provided by article 2412 of the Civil Code) and tax law, thereby creating the conditions for SMEs to reach out to the debt capital market investors.

The term "minibond" (a term taken from journalistic, rather than legal, jargon) refers essentially to three sorts of financial instruments: traditional corporate bonds (provided by art. 2410 of the Civil Code and by article 2483 of the Civil Code), financial promissory notes ("*cambiali finanziarie*", the only real novelty of Development Decree) and subordinate/tracking bonds ("*obbligazioni subordinate/participative*"). By and large, the most common type of "minibonds" issued as of now are the traditional corporate bonds. As a matter of fact, therefore, when we talk about minibonds, we tend to refer to financial instruments that, from a purely formal perspective, are *corporate* bonds.

Then, when does a traditional corporate bond qualify as "minibond"? What are the features that make a corporate bond a minibond? Typically, corporate bonds are qualified as minibonds when:

- they are issued by not-listed companies of small or medium size (excluding micro-corporations, which are companies that employ less than 10 workers and have an annual sales volume below Eur 2,000,000);
- their value exceeds the limit of twice the value of the net equity;
- they are subject to tax treatment of bonds issued by listed companies, *i.e.*: exemption from withholding tax; deduction of interests; deductions of issuance costs;
- they are subscribed for by institutional investors and do not amount to solicitation of public investment;
- they are listed on regulated markets (*i.e.* Extra MOT);
- they are issued for a total lower than Eur 50M (Extra MOT Regulation).

In order to facilitate the access to the market for even-less structured companies, the listing requirements on Extra MOT market and subsequent reporting obligations are kept to a minimum. To list the bonds on the Extra MOT market the issuer is required to submit the last two financial statements (but only the last one must be audited) and a simplified offering document. Once the bonds are listed, the issuer is required to publish audited financial statements and to disclose price sensitive information. Although not mandatory, it is good practice that prior to listing the bonds the issuer prepare a business plan with the help of an advisor.

The total value of minibonds issuances is approximately around Eur 4.8 billion. Out of this aggregate number, minibond issuances below the size of Eur 50M (*i.e.* the size of true and genuine minibonds) are worth Eur 714 million. Only in the last two months of 2014, there have been 10 issuances (out of 73 total since when the Development Decree was approved in 2012), with a value of Eur 77M. The average features of these last issuances are a denomination of about Eur 7.7M, with a 3.7 years life and a 5.5% coupon, whereas the same data since the 31th October 2014 indicate that the denomination was about Eur 10M, with a 6.4 years life and a 6.1% coupon. Another significant consideration that can be made, is that the average revenues of the issuer was Eur 82M since the 31st October 2014 and Eur 68M for the last emissions.[1]

One of the main factors that may explain the limited success of minibonds during the first two years is that minibonds are usually more expensive than bank debts (in terms of higher interest rates and higher issuance costs). In the last few months, however, there is evidence of a higher attractiveness in regard of this new financing method, with the creation, by banks or other financial agents, of specifically dedicated funds for minibond subscriptions and a slow, but constant, decrease of interest rates.

It is not clear yet how successful this new type of financing will be, as compared to bank debt. However, recourse to debt capital market through minibonds certainly appears as a first step that a typical closely-held Italian SME can make to approach the capital market.

I numeri precedenti sono disponibili online sul sito.

Se desideri iscriverti al servizio clicca qui.

[1] http://minibonditaly.it/assets/uploads/news/posts/attachments/5e645-barometro_31dic14_v2-1.pdf